

IDAHO OUTLOOK

NEWS OF IDAHO'S ECONOMY AND BUDGET

STATE OF IDAHO

DIVISION OF FINANCIAL MANAGEMENT

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Although it is barely spring, we are already bombarded by trailers of this summer's movie releases. The Tinseltown hype machine is in overdrive reminding us to catch the fate of Jack Sparrow, Peter Parker, Fiona and Shrek, or Harry Potter, etc. Taking a page from Hollywood's marketing manual, we offer a sneak peek into the Division of Financial Management's April 2007 *Idaho Economic Forecast*.

Given the state economy's recent strong showing, it is natural to wonder whether the sequel will match the original. Measured by jobs, population, and income growth Idaho has been on a roll recently. Idaho nonfarm employment growth has accelerated in every year since 2002, with its momentum pushing it to 4.6% in 2006—its strongest showing in a dozen years. The U.S. Census Bureau estimates Idaho's July 1, 2006 population at 1,466,465 persons, or a gain of 2.6% from 2005. The national population grew just under one percent last year. Not only did Idaho's population grow faster than its national counterpart, but so did the state's personal income. Idaho nominal personal income advanced nearly 8.0% last year, versus 6.3% for the nation.

A notable exception to last year's strong box office was Idaho housing starts. After peaking at 23,173 units in 2005, this measure slid by 16.4% to 19,374 units in 2006. Similar to "Norbit's" impact on Eddie Murphy's career, housing's recent steep decline raises concerns it will fast become a drag on the

Idaho economy. Construction employment would likely be the first victim of the housing decline. This is no trivial worry. Construction employment accounted for one out of every four jobs gained in Idaho last year. While this year will be difficult for the housing sector, the combination of forecasted strong population growth, healthy income and employment growth, and relatively low interest rates suggests housing starts will recover to more sustainable levels by the latter years of the forecast.

After enjoying back-to-back blockbuster years in 2005 and 2006, Idaho's economy is anticipated to advance more slowly over the next few years. Nonfarm employment should increase 2.1% this year, 2.0% next year, 2.3% in 2009, and 2.9% in 2010. After advancing a heady 2.6% last year, Idaho's population is forecast to increase 2.3% in 2007, 2.1% in 2008, 2.0% in 2009, and 2.2% in 2010. Idaho nominal personal income is projected to advance 6.2% in 2007, 5.9% in 2008, 6.5% in 2009, and 7.3% in 2010.

The U.S. economy ends 2006 like a lion, but starts 2007 like a lamb. After advancing by a subpar 2.0% annual pace in the third quarter of last year, real GDP posted a small rally in the last quarter, growing by 2.5%. The expected weakness during the first part of this year raises worries regarding risks to the forecast. A major concern is the subprime mortgage meltdown. Over the past few months, over two dozen lenders have filed for bankruptcy,

sought buyers, or ceased operations. Meanwhile, both delinquency rates and foreclosures have risen sharply. The subprime adjustable-rate mortgages (ARM) are the biggest worry. About two-thirds of these ARMs will "reset" in the next two years, raising monthly mortgage payments, which points to more foreclosures down the road. It also points to lower housing demand, which dampens starts. The ripples from the impact of the weak housing sector could spill over into other sectors.

Another worry is inflation. Although energy prices are expected to stabilize, the tight labor market is expected to continue exerting upward pressures on wages. Despite steady productivity growth, wage costs should accelerate from 3.1% this year to 3.5% in 2010. The core inflation rate averages about 2.2% per year. This will make the Federal Reserve's job interesting. This forecast assumes the Federal Reserve will not make any serious policy mistakes and the U.S. economy does not suffer a recession. After downshifting in the first quarter, real GDP growth should gradually move into higher gear, accelerating from 2.1% growth this year to 2.8% next year to 3.3% in 2009, and 3.1% in 2010.

We hope this preview has whetted your appetite for the full feature. It will be playing soon at <http://dfm.idaho.gov/Publications/EA/Forecast/ForecastIndex.html> And unlike much Hollywood fare, we trust the feature is better than the trailer.

RETURN SERVICE REQUESTED

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General Fund Update

As of March 31, 2007

<u>Revenue Source</u>	\$ Millions		
	FY07 Executive Estimate ³	DFM Predicted to Date	Actual Accrued to Date
Individual Income Tax	1,273.6	834.0	834.3
Corporate Income Tax	208.2	120.9	106.1
Sales Tax	1,084.7	794.9	786.9
Product Taxes ¹	22.2	17.5	17.6
Miscellaneous	117.6	61.6	63.9
TOTAL GENERAL FUND²	2,706.3	1,828.9	1,808.8

¹ Product Taxes include beer, wine, liquor, tobacco and cigarette taxes
² May not total due to rounding
³ Revised Estimate as of January 2007

General Fund revenue rebounded in March, coming in \$8.0 million ahead of expectations for the month. This brings fiscal year-to-date General Fund revenue to a level that is \$20.1 million below the predicted amount. The month's strength was entirely due to the individual income tax. The fiscal year-to-date shortfall is spread across two of the big three—the corporate income tax and the sales tax.

Individual income tax once again dominated the month's results, with net collections coming in \$12.9 million higher than expected. This reverses last month's negative swing, and brings the year-to-date balance to \$0.3 million above the predicted amount—essentially dead-on. The month's gain was due

primarily to refunds that were \$10.2 million lower than expected, plus withholding collections that were \$3.0 million higher than expected. Filing payments were a scant \$0.3 million lower than expected for the month.

Corporate income tax revenue remained stable in March, coming in \$0.1 million above the target for the month. This leaves the fiscal year-to-date collections \$14.9 million below the predicted amount. For the month, filing collections were \$1.9 million lower than expected, estimated payments were \$1.2 million low, but refunds were \$2.1 million lower than expected and miscellaneous diversions were \$0.7 million low.

Sales tax collections largely erased last month's gain, coming

in \$2.4 million lower than expected. This important revenue category is now \$7.9 million below expectations for the fiscal year to date, with four of the last five months coming in anywhere from \$2.1 million to \$4.4 million below expectations. While Idaho's economy remains healthy based on income and employment data, this revenue source appears to be responding to the reversal of fortune in the real estate and construction sectors.

Product taxes continue to track on target, while miscellaneous revenue posted a \$2.6 million shortfall in March due to weakness in the insurance premium tax (short by \$1.9 million), interest earnings (\$0.4 million lower than expected for the month), and unclaimed property (\$0.2 million low).